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C O N F I D E N T I A L SECTION 01 OF 03 DILI 000285

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SUBJECT: TIMOR-LESTE'S NEW CABINET

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REASON: 1.4 (b), (d)

¶1. (SBU) Summary: Newly appointed PM Xanana Gusmao laid out an ambitious program for the government formed by the Alliance with a Parliamentary Majority (AMP) in his August 8 inaugural speech.

Effective implementation will be challenged by difficult relations with the outgoing ruling party FRETILIN as outlined in reftel. Additionally, these first few months will be a testing period for the capacity and cohesion of the AMP Government, which in addition to considerable policy challenges must manage the relationship of its constituent parties: the National Congress for Timorese Reconstruction (CNRT), the Social Democratic Association of Timor and the Social Democratic Party (ASDT/PSD) coalition, and the Democratic Party (PD). Key questions concern the governance style of a Gusmao premiership; whether the organization and constitution of the Council of Ministers (cabinet) will be able to tackle many pressing policy issues; and whether the four parties that comprise the AMP will be able to maintain their political unity. A number of observers have noted that despite his charisma and popularity, Gusmao may lack the practical administrative experience for the job. AMP sources dismiss this, arguing that his role is to provide leadership and vision, and that practical implementation will fall to others. The government appears to include many technically skilled individuals. Although, the internal politics of AMP have in some cases resulted in less than ideal appointments, AMP has maintained and strengthened its unity and cohesion, partly due to the pressures brought by the external FRETILIN "enemy". The dynamics behind the scenes point the potential for this unity to unravel if it is not carefully managed. End summary.

¶2. (U) In his inaugural speech on August 8, newly appointed Prime Minister Xanana Gusmao laid out an ambitious program for the AMP government including resolving crisis related issues of internally displaced persons (IDPs), the military petitioner issue, and the outstanding case of dissident military leader Alfredo Reinado; political reform with a focus on decentralization of power; a large focus on economic development, strongly emphasizing agriculture and domestic

market development as well as improving the investment environment; environmental protection policies; anti-corruption initiatives; reform and development of the education system; the development of a national health system; reforming the defense and security sectors; and accelerating the process of providing pensions to veterans and others. In immediate practical terms, the first major item on the government's agenda must be to develop and pass a budget. Gusmao stated that they will develop an interim budget to carry them through the end of the calendar year and a full one year budget to commence January 1, the proposed start of the new fiscal year (the current fiscal year runs July 1 through June 30).

13. (SBU) In addition to the challenges inherent in the divisive political environment described in reftel, the first few months of the AMP Government will be a difficult test of its policy and administrative capacity as well as the ability of the alliance of four parties to maintain their unity. Gusmao is unquestionably charismatic and retains wide, if diminished, popularity, but it is difficult to ascertain what kind of Prime Minister he will be. Some observers worry that he may lack the practical administrative experience for the job. AMP sources, on the other hand, dismiss such questions. In a conversation on August 10, Dionisio Babo Soares, the Secretary General of Gusmao's CNRT party, emphasized that Gusmao's role is to provide leadership and vision. Practical implementation will fall to others within the Office of the Prime Minister and to the line ministers. He noted that the structure of the Office of the Prime Minister is still to be formed and staffed but will include significant human resources to focus on key strategic areas, such as defense and security, planning and development, and the petroleum sector.

14. (SBU) The new government appears to include many technically skilled individuals, while political considerations were determinative in several cases. For example, AMP sources note that it was imperative that at least one ministry be given to a member of the ASDT party, although it has few technocrats to offer. PSD's leadership reportedly threatened to leave the alliance if three of its members were not given ministries. In addition, there has been significant turmoil within PD regarding

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government appointments, with the East-West divide raising its head. The new government also reflects a significant amount of restructuring. There are now 12 ministries, with economic and finance issued divided into three different portfolios, the Ministry of Interior eliminated and its functions folded into other ministries, and defense and security issues placed directly under the Prime Minister with sub-categories divided among Secretaries of State. Most vice minister positions have been eliminated except for three; instead, there are now 25 Secretaries of State. CNRT Secretary General Babo Soares

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explained that this is part of the decentralization plan as secretaries of state ultimately report to ministers but have

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greater decision making authority than either vice ministers or directors within the ministries.

15. (C) The following is an overview of the new cabinet, with brief notes regarding the individual appointment and initial assessments:

-- Deputy Prime Minister Jose Luis Guterres. Guterres, who heads FRETILIN's internal opposition group FRETILIN Mudansa, was strongly vying for the Foreign Minister position, but ultimately bent to pressure from Gusmao to be his deputy. Gusmao reportedly wanted to use this position to further strengthen Mudansa's hand within FRETILIN. Guterres was Foreign Minister under Ramos-Horta's government and previously served as Timor-Leste's Ambassador to the United States and the United Nations in New York, where his family continues to reside.

-- Minister of Foreign Affairs, Zacarias Albano da Costa. Da Costa spent the Indonesian occupation years living in Portugal

where he gained an education in linguistics and taught elementary school. He returned to Timor-Leste in 1999 and became a founding member of PSD. He previously worked with USAID contractor Development Alternatives International (DAI), but left last year to work full time for his party. He was a key negotiator in the formation of the AMP. He will likely be an effective Foreign Minister and will work closely with Ramos-Horta.

-- Minister of Finance, Emilia Pires. A political independent who has worked closely with Gusmao, Pires studied statistics and economic development in Australia and England. She was heavily involved in the writing of the National Development Plan and has served as an advisor to the previous Ministry of Planning and Finance. She is regarded as intelligent and qualified, but often arrogant. Prior to her ministerial appointment she worked in the Dili offices of the World Bank.

-- Minister of Justice, Lucia Lobato. Lobato was PSD's candidate in the first round of presidential elections. Educated in law in Indonesia, she is described as the most active woman in Renetil, the student pro-independence movement founded in the 1990s and strongly associated with the younger Indonesian-educated generation. In contrast to the previous Minister of Justice who had difficulty taking any decisions, she tends to make decisions quickly and decisively, but often with insufficient consideration.

-- Minister of Health, Nelson Martins. Martins, a doctor by trade, is a political unknown, and Post has so far been unable to obtain background information on him. The Ministry of Health has one of the three vice minister positions, but it remains vacant.

-- Minister of Education, Joao Cancio. A political independent, Cancio is nonetheless close to PD. He spent much of the occupation in Timor-Leste and Indonesia, studied in Australia, and recently ran Australia's educational exchange programs in Timor-Leste. He is considered intelligent and a man of ideas, but not a practical implementer. Provided that he has good ministry staff able to absorb and implement his ideas, he may be a very good minister. His Vice Minister, Paulo Assis Belo of PD, is considered a capable technocrat and should be a good complement.

-- Minister of State Administration and Territorial Order, Arcangelo Leite. Leite, a PD member, studied public administration in Indonesia where he was also active in Renetil.

He served as one of the director generals in Ministry of State Administration under FRETILIN Minister Ana Pessoa, and was considered one of the most competent officials in the ministry. He has a good relationship with Pessoa as demonstrated in their handover arrangements last week.

-- Minister of Economy and Development, Joao Goncalves. A PSD member of the previous parliament, Goncalves spent most of the occupation period in Australia. He is said to have had problems

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with the police in Australia due to illegal business dealings and is not expected to be an effective minister. However, he was one of three PSD members that the party insisted on having in government on threat of withdrawing from AMP. His vice minister, young PD member Rui Manuel Hanjam, previously worked with the World Bank and may bring some technocratic experience to the ministry.

-- Minister of Social Solidarity, vacant. This position, the successor to the Minister of Labor and Solidarity, was offered to FRETILIN MP and former Secretary of State for Veteran's Affairs, David Ximenes. Ximenes reportedly was ready to accept, but was not allowed to by his party.

-- Minister of Infrastructure, Pedro Lay. Lay is a political independent but close to CNRT. His brother is Chico Kalbuadi, who ran the CNRT election campaign. Lay studied electronic engineering in Australia. He is considered a good technician and expected to be an effective minister.

-- Minister of Tourism, Commerce, and Industry, Gil da Costa Alves. Alves, a businessman, is the Secretary General of ASDT and the party's only realistic candidate for a high position. He is seen as one of the ministerial appointments made for political reasons only, and there are concerns that he may be out of his depth.

-- Minister of Agriculture and Fish, vacant. PD Secretary General Mariano Sabino was slated to take this position, and with his agricultural engineering background and good reputation for his party leadership, would have been a good choice. However, a group within PD has raised objections regarding the number of easterners in the government and levied pressure and even threats against Sabino, who is from the eastern district of Lautem. It is unclear at this point how this conflict will be resolved.

¶6. (C) Comment: AMP has during the last month of government formation deliberations maintained and strengthened its unity and cohesion. However, it is arguable that they have managed this in part due to the pressures brought by the external FRETILIN "enemy". The dynamics behind the scenes point the potential for this unity to unravel if it is not carefully managed. As noted above, although the government includes many chosen for their technocrat skills, it also reflects significant political horse trading. Should, for example, Goncalves of PSD fail to perform in the important Economy and Development Ministry, then AMP officials will face the dilemma of keeping an ineffective minister or potentially angering an alliance partner. CNRT members are reported to already be unhappy with their low representation in the government, while dynamics within PD demonstrate the worrying splits within that party along regional lines despite how well the party is represented in the government. While none of these undercurrents currently threaten the AMP's unity, they point to the fault lines that could become much harder to manage in the future. End comment.
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